

**HOUSE SMALL BUSINESS COMMITTEE  
HEARING REGARDING  
SMALL BUSINESS CONTRACTING  
IN THE AFTERMATH OF HURRICANE KATRINA**

**AUGUST 2, 2007**

Testimony of  
Administrator Steve Preston

Good afternoon Chairwoman Velazquez, Ranking Member Chabot, and distinguished members of the Committee. Thank you for inviting me to discuss SBA's updated disaster response plan and our efforts to promote Federal contracting opportunities for small businesses following the 2005 Gulf Coast hurricanes. I am pleased to report on SBA's activities since my unprecedented testimony at the hearing in New Orleans on April 12, 2007 and our plans to assist in the contracting process in future disaster reconstruction efforts.

SBA continues its commitment to disaster victims in the Gulf Coast and throughout the country. As you are well aware, when I arrived at the Agency, there was a major backlog to close and disburse the tremendous volume of loans. We quickly dug in to address the issues. First, I went to our customers and asked them about their problems because it was important to know exactly what they were facing. Next, I took that information to our employees who were close to the action to get their perspective, and let them know how our customers viewed the situation. Then we got into the operational processes where we saw a number of issues leading to relatively high error rates, backlogs in critical processes and decision-making bottlenecks.

As a result of the reengineering effort, we established a new process to eliminate our backlogs, dramatically reduce response time, and improve the support we give to disaster victims throughout the process. As of today, all but 1,000 loans have been either fully or partially disbursed, and of those borrowers who have not drawn down on their funds, we stand ready to disburse. Our people have become advocates for the borrowers and we are now able to connect a loan and a document to a life and a story.

While we were re-engineering our processes and evaluating our performance, SBA recognized the severe challenges that hindered our efforts to aid recovery, and has made dramatic improvements to its processes that will significantly accelerate our response to victims of future disasters. On June 1<sup>st</sup> of this year, SBA presented to the Committee the Agency's Disaster Recovery Plan. After months of deliberations, and countless hours of work, this plan documents the critical steps taken by the Agency along with other Federal Agencies to prepare for, respond to, and recover from natural disasters. It also establishes a clear action plan to revamp our capacity.

Our improvements to the disaster assistance process include an accelerated loan application decision process; improved processes and tools for loan closing and fund disbursement; more transparent, meaningful performance data to better manage operations; consistent adherence to policy through training and internal quality assurance; better coordination with non-disaster field staff; and improved harmonization across disaster center operations.

Just as we have learned lessons and made significant improvements on the disaster lending side of our response to the 2005 Gulf Coast hurricanes, we have also assessed the contracting process during the rescue, relief and reconstruction of the region, and I am pleased to report on our efforts and progress on that front, to date.

SBA was and continues to be committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort. Soon after Katrina struck, SBA dedicated personnel to assist in identifying small business contracting opportunities. Five Procurement Center Representatives (PCRs) were specifically assigned to work with Federal agencies, including the Department of Defense, Department of Homeland Security and the General Services Administration, to find relief and reconstruction contracts and subcontracting opportunities for firms in the Gulf Coast region. All other PCRs across the country were similarly directed to search for small business contracting opportunities. Judith Roussel, our District Director for Chicago, a native of New Orleans, and former SBA Associate Administrator for both the 8(a) and Government Contracting Programs, was assigned to direct the initial efforts and spent several months working in New Orleans to expand contracting opportunities.

During the rescue, relief and reconstruction of the Gulf to date, small business participation exceeded the Federal Government's 23 percent prime contracting goal by nearly five percent. Our preliminary data shows that small businesses have received nearly 29 percent of the more than \$16.4 billion awarded in the Gulf.

With regard to the performance of the Federal Government in contracting to local businesses, over 23 percent or \$3.7 billion of the \$16.4 billion in contracts were awarded to local businesses of all sizes in Alabama, Louisiana and Mississippi. Of that \$3.7 billion, approximately 57 percent went to local small businesses.

SBA has also begun an initiative to refocus the workload of our PCRs to increase the amount of time they have to review contract actions. It is more important than ever that our PCRs keep in contact with contracting officers and specialists at the purchasing agencies. Recently, PCRs have been spending too much time on other duties, duties that distract them from their primary mission of identifying opportunities for small businesses.

We are expanding training and clarifying the role of the District Office to work more intensively with small businesses to identify the specific contracts for which they may be eligible to apply, as well as finding more small businesses interested in pursuing new contracting opportunities as they arise. They will be able to draw on existing databases of local small businesses, as well as established contacts to promote contracting opportunities.

Related to our revised approach to emergency acquisitions, the Office of Federal Procurement Policy and the Chief Acquisition Officers Council Working Group on Emergency Contracting has provided guidance on strategies for effective response planning and flexibilities that acquisition personnel deployed to an emergency situation may use to facilitate timely procurements. The report addresses small business contract formation and specifically, the importance of pre-qualified contractors.

Where consistent with preferences provided to local businesses, the guidance calls on agencies to provide maximum contracting opportunities to small businesses, including new entrants to the market. Use of simplified acquisition procedures should make it easier for agencies to do business with these sources, especially small businesses, which otherwise might experience difficulty competing in more formal settings where participation costs are higher.

Also, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288) requires support to local economies adversely affected by emergencies. Agencies must perform market research on local business capabilities and give preference to those local firms capable of performing the requirement. The Stafford Act was amended in 2006 to add a local firm set-aside requirement for debris clearance, distribution of supplies, reconstruction, and other major disaster or emergency area assistance activities. We are supporting these efforts through our District Offices and PCRs.

In the meantime we have also recognized several hurdles to our ability to use small businesses more effectively in disaster situations. One of these barriers is the Competitiveness Demonstration Program (Comp Demo). Because "Comp Demo" restricts the use of small business set-asides in certain designated categories, specifically construction and waste removal, agencies are unable to focus as much contracting on small businesses as they would like.

Another area of concern is SBA's surety bonding program. While we have recently made administrative changes to improve access and utility of this program, the bond size does remain an issue. As I have stated before, the Administration would support an increase in the current bond size from two million dollars to five million dollars. That size increase would more accurately reflect the type of contracts available for small businesses.

In closing, thank you for allowing me the opportunity to testify. The 2005 hurricanes overwhelmed disaster response at all levels, and certainly SBA was no exception. Our people worked – often around the clock to try to help the disaster victims whose lives were torn apart by the hurricanes. Those are the same people who fixed the process and are, today, enabling SBA to play its part in rebuilding the Gulf while simultaneously improving our ability to respond to disasters in the future. I am very thankful for their dedication and their resolve.